

CHAPTER 1

FINANCIAL CONTROL OF ASSETS

0101 GENERAL

010101. Purpose. This chapter sets forth overall standards to be followed in accounting for assets. One of the objectives of Department of Defense (DoD) accounting is establishing accounting control over all assets provided to, or acquired by, the DoD. Assets shall be under continuous accounting control from acquisition to disposition. Such control helps ensure proper and authorized use as well as adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of, without the proper authorization necessary to document and record the transaction. All tangible assets provided to the DoD shall be accounted for, including assets in transit and assets in the hands of contractors, private parties, and other government agencies.

★ 010102. Overview. A DoD asset is any item of economic value owned by a DoD Component or held in a fiduciary capacity under the control of a DoD Component. The item may be physical in nature (tangible) or a DoD Component may have a right to control the item (intangible). The value of a DoD asset is expressed in terms of its acquisition cost and control of the asset by a particular DoD Component must be the result of a past transaction or event.

★ 010103. Entity vs. Nonentity Assets. Entity assets are those assets which the reporting DoD Component has authority to use in its operations. The authority to use assets in a DoD Component's operations means that the DoD Component has the authority to decide how the asset is used, or is legally obligated to use the asset to meet statutory obligations. Nonentity assets are those assets that are held by a DoD Component but are not available for the Component to use in its operations. In some circumstances, a DoD Component may maintain cash or other nonentity assets in a fiduciary capacity for the U.S. Treasury, other government agencies or nonfederal entities. Entity assets include real property assets used in the operations of the Defense Agencies (e.g., the Defense Logistics Agency Headquarters building located at Ft. Belvoir). Such real property assets are required by statute to be recorded in the real property databases of the Military Departments, but are predominately used by the Defense Agencies and are considered entity assets of the Defense Agencies for financial statement purposes. Entity cash and assets should be reported separately from nonentity cash and assets.

★ 010104. Intragovernmental vs. Public Transactions. Intragovernmental assets arise from transactions among federal agencies. Within the DoD, intragovernmental assets represent claims of a Military Department or Defense Agency against other DoD Components and other federal agencies. Intragovernmental liabilities represent claims of other federal agencies against the Department. Public assets arise from transactions between DoD Components and nonfederal entities. The term "nonfederal entities" encompasses domestic and foreign persons and domestic and foreign organizations outside the U.S. Government.

★ 010105. The transactions discussed in chapters 2 through 7 of this Volume frequently will require compound accounting entries; that is, accounting entries must be made simultaneously in both the proprietary accounts and the budgetary accounts. Both proprietary and budgetary entries will be shown, where applicable. Additional information on budgetary accounts not covered in this chapter are included in Volume 3, “Budget Execution - Availability and Use of Budgetary Resources” to this Regulation.

0102 ACCOUNTING STANDARDS

010201. The specific accounting standards for each category of assets are discussed in the sections that concern those assets. The following general standards apply to all assets.

010202. An asset is an economic resource available to the DoD and has three essential characteristics.

A. It has a capacity to contribute to the accomplishment of the DoD mission. This capacity often is called “service potential.”

B. The DoD can use the asset or control access of others to the asset.

C. The transaction or event giving rise to the DoD’s right to, or financial control over, the asset has already occurred.

010203. Noncash assets shall be valued promptly, once acquired by or taken into possession by the DoD, and subjected to monetary accounting control.

★0103 FUND BALANCE WITH TREASURY AND CASH

010301. The principal DoD cash account is its fund balance with the Treasury. “Fund Balance With Treasury” includes all funds on deposit with Treasury reported on the SF 224 Statement of Transactions, SF 1219 Statement of Accountability and/or Financial Management Service 2108 Year-end Closing Statement. The fund balance decreases when disbursements are made, transfers are issued, and rescissions are authorized by the Congress. The reporting entity will reconcile the Department’s “Fund Balance With Treasury” general ledger account at the appropriation level to Treasury. This section discusses standards for accounting for transactions affecting cash. The Treasury Financial Manual and Title 7 of the General Accounting Office Policies and Procedures Manual for the Guidance of Federal Agencies contain specific processing requirements for disbursing officers’ transactions.

★ 010302. In addition to “Fund Balance With Treasury,” DoD reporting entities may hold cash. Cash includes all monetary resources on hand or on deposit with banks and other financial institutions, including coins, currency, and readily negotiable instruments (such as checks and money orders). Cash must be recognized as an entity or nonentity asset and consists of the following:

★ A. Undeposited Collections. Coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit.

★ B. Imprest Funds. The authorized amount of cash held by disbursing officers at personal risk. (With the exception of contingency operations and exceptional circumstances, imprest funds are not authorized within the DoD.)

★ C. Other Cash. Cash holdings other than undeposited collections and imprest funds.

★ D. Other Monetary Assets. The balance of monetary assets, including gold (valued at market), special drawing rights, and U.S. Reserves in the International Monetary Fund.

★ E. Foreign Currency. The U.S. dollar equivalent of foreign government currency.

010303. Restricted Cash. Cash may be restricted. Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions.

010304. The following standards apply to accounting for cash.

A. Cash accounting shall:

1. Be complete, accurate and timely.
2. Cover cash receipts, cash disbursements, and cash balances.
3. Comply with applicable laws and regulations.
4. Disclose errors, losses, and gains.

B. Cash receipts shall be recorded immediately upon collection, kept under control, and deposited intact as soon as practicable. Cash collections shall not be held by the disbursing officer to cover cash disbursements.

C. Disbursements shall be made only after evidence of performance has been received or an advance payment has been authorized. Disbursements shall be recorded promptly in the applicable DoD accounting system and reported in the Statement of Transactions.

D. Cash receipts and disbursements are to be reconciled with appropriate documents and accounting records, as applicable within each accounting period.

E. Foreign currencies shall be accounted for in subsidiary accounts separate from U.S. currency. Foreign currencies shall be reported at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. The fact that a foreign currency is not freely exchangeable shall be footnoted on reports. Accounting entities may prepare financial statements for their own use, which may or may not be in U.S. dollars. These lower level statements shall be translated into U.S. dollars when used to prepare departmental financial statements.

F. Guidance relating to cash management procedures prescribed by the Treasury Department is in Chapter 2 of this Volume.

0104 RECEIVABLES

★ 010401. Amounts due the DoD shall be recorded accurately in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. Receivables arise from claims to cash or other assets and include accounts receivable, interest receivable, and loans receivable.

★ 010402. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the due date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

★ 010403. Guidance relating to receivables is contained in Chapter 3 of this Volume.

★0105 INVENTORY AND RELATED PROPERTY

★ 010501. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Inventory includes items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities.

★ A. Inventory shall be recognized as an asset when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

★ B. Inventory shall be valued at either (1) historical cost, or (2) latest acquisition cost.

★ 010502. Guidance relating to inventories is contained in Chapter 4 of this Volume as well as Volume 11B of this Regulation.

★ 010503. Related property includes operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support

and stabilization programs. Guidance on such related properties is contained in Chapter 4 of this Volume.

★0106 ADVANCES AND PREPAYMENTS

★ 010601. Advances. Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Common examples are travel advances which are made in contemplation of future travel expenses or advances to contractors which are made in contemplation of future receipt of inventory or fixed assets. Advances are reduced when related goods or services are received, contract terms are met, or progress is made under a contract, or prepaid expenses expire.

★ 010602. Prepayments. Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. Prepayments are reduced when goods or services are received, contract terms are met, or progress is made under a contract.

★ 010603. Advances and prepayments are assets of the paying entity.

★ 010604. Advances and prepayments made from one federal entity to another federal entity are intragovernmental transactions and should be accounted for and reported separately from those made to nonfederal entities.

★ 010605. Guidance relating to advances and prepayments is contained in Chapter 5 of this Volume.

★0107 PROPERTY, PLANT AND EQUIPMENT

★ 010701. Property, plant and equipment (PP&E) is composed of General PP&E and Stewardship PP&E. Accounting for property, plant and equipment in which the government has an ownership interest is important because public funds are invested. Property is accounted for in accounting systems and controlled in property accountability systems or records. The accounting system identifies the dollar value of property in summary terms. Property accountability systems and records should provide information as to quantities and costs which underlay the summary figures reflected in the accounting system. The DoD has an obligation to safeguard its property from theft, abuse, waste, and unauthorized use and otherwise manage the property efficiently and effectively.

★ 010702. All General PP&E assets are to be recorded in accounting records at cost. Such costs shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use in operations. The cost of Stewardship PP&E shall be expensed in the accounting period in which incurred. The acquisition cost and related expenses for property shall be recorded as specified in Chapter 6 of this Volume.

★ 010703. The accounting standards, policy and guidance relating to PP&E are contained in Chapter 6 of this Volume.

0108 OTHER ASSETS

★ 010801. Other assets are those assets that cannot be classified in a specific category identified in sections 0101 through 0107, above. Included in this category are investments and other miscellaneous assets not otherwise classified.

010802. The accounting standards to be followed for these assets are included in Chapter 7 of this Volume. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods.